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Argentina

Retail Food Sector

2000

Approved by:

David Mergen

U.S. Embassy

Prepared by:

Ken Joseph/Maria Julia Balbi

Report Highlights:

Close to 80 percent of the country's total food and beverage retail sales and about 75 percent of those imported are sold through hypermarkets, superstores and small supermarkets. Their share is projected to continue to grow, at a slower pace, as a result of the rapid expansion the self-serve sector is experiencing. Many strong international retail companies operate in Argentina. Traditional stores are either closing or converting into more sophisticated stores. Excellent opportunities exist for a wide range of U.S. foods and beverages.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Buenos Aires [AR1], AR

SECTION I. MARKET SUMMARY

- < Argentine total retail sales of foods and beverages (F&B) for 2000 are projected at \$21.3 billion.
- < Hypermarkets and superstores account for 44 percent of the total; small supermarkets (including warehouse stores) 24 percent; grocery stores 21 percent; and convenience stores (CS), gas marts and kiosks 11 percent.
- < Hypermarkets and superstores, are the retail formats which have most grown in the past six years. However, due to the economic recession in 1999/00, their market share growth has stopped. Small supermarkets (plus warehouse stores) are expanding their sales, while convenience stores and kiosks have slightly recuperated market share.
- < Many international retail companies are operating in Argentina: Wal Mart, Ahold, Carrefour-Promodes, Casino, Auchan, Makro.
- < Concentration is increasing as small/medium retail chains are being purchased by big multinational players. Coto, Jumbo (Chilean capital), La Anonima are just a few of the large retailers which still have local ownership.
- < Strong competition and concentration in Buenos Aires city and suburbs, and new regulations limiting the expansion of big stores.
- < Large retailers are expanding into the interior of the country.
- < Large retail companies have gained tremendous negotiating power, putting strong pressure on their suppliers, e.g. free stock for every new store inauguration, high slotting fees, financial support for marketing, etc.
- < In mid-2000 retailers and suppliers signed an agreement called "Code of Good Marketing Practices", which prohibits retailers from selling under the cost price, shortens payment terms and prohibits debiting of sums which are not previously agreed.
- < Most large supermarkets are in the process of expanding their private label lines, with increasing popularity.
- < Hypermarkets, superstores and supermarkets account for approximately 80 percent of the sales of imported food and beverages.

Value of Imported Food and Beverage Retail Sales vs. Domestic Products (in \$ billion)

Retail Sales/Year	1996	1997	1998	1999	2000*
Imported F&B	0.9	1.0	1.1	1.1	1.3
Domestic F&B	19.7	19.1	20.6	20.3	19.9
Imp/Total F&B Retail Sales %	4.4	5.0	5.0	5.1	6.1

* FAS projection

Trends in Distribution Channels

- < More hypermarkets and superstores will be established in the interior of the country, primarily in cities with 100,000+ people
- < Slower pace of opening of large stores compared to the past five years
- < A significant drop of sales per sqm. due to competition and new openings, but opportunities are still attractive enough to encourage further investment.

- < Expansion of new-to-market warehouse stores (locally known as "hard discounts"), especially in Buenos Aires city and in medium-sized cities in the interior. More than 80 were inaugurated in 1999.
- < Concentration through new openings, and mergers and acquisitions is expected to continue. Carrefour-Promodes bought Norte, Tia, and Dia, with joint F&B sales of about \$3 billion and 12 percent of the country's total food and beverage retail sales.
- < Most purchases of domestically produced products by hypermarkets and superstores are done directly from processors, avoiding intermediaries.
- < Superstores import directly (occasionally through local agents/representatives) a significant amount of foreign foods and beverages. This trend is growing.
- < Increased home and office delivery by retailers.
- < Slow expansion of Internet and telephone sales.
- < Large retailers have modern centralized warehouses, whereas grocery stores and small supermarkets suffer from an inefficient and, in many cases, obsolete distribution and logistical system.
- < A majority of consumers are expected to continue to value price over quality, though value will be increasingly important.
- < Wholesale clubs (only Sam's and Makro's Kargo) have each closed their three stores as the format has not "caught on".
- < Convenience stores are expected to increase in numbers as more gas stations incorporate this service, increasing competition for small supermarkets and mom & pop stores.
- < With the incorporation of more food and beverages, kiosks and convenience stores will increase their competition with small supermarkets and grocery stores.

Number and Type of Retail Outlets (1999)

Type of Store	Number of Outlets	% of Total Outlets	% of F&B Retail Sales*
Hypermarkets	54	0.03	15.4
Superstores	1240	0.6	29.0
Small Supermarkets	12,861	6.2	23.7
Grocery Stores	100,884	49.0	21.4
Convenience Stores	5,230	2.5	3.5
Kiosks	85,542	41.6	7.0
Total	205,811	100	100

Source: ACNielsen

* FAS estimate

Trends in Services Offered by Retailers

- < Incorporation of home meal replacement services, such as hot and frozen meals
- < Larger space devoted to frozen foods.
- < Thematic shelves are starting to be adopted. Although the offering is small, more hypermarkets offer ethnic food, Kosher food, organic products.
- < Home delivery is expanding in all formats. However, office delivery is mainly provided by kiosks and convenience stores.
- < Increasing popularity among the more affluent consumers of purchases by phone. There is only one large retailer which offers sales through the web.
- < Another trend is the opening of other food and non-food businesses annexed to hypermarkets and superstores, such as cinemas, food quarters, amusement parks, etc.
- < Incorporation of inexpensive restaurants/fast foods inside the stores.

Outlook for U.S. Exports of Food & Beverage Products

ADVANTAGES	CHALLENGES
Argentine consumers think of US products as high quality and reliable	Mercosur preferential tariffs encourage inter-regional trade. Brazilian and Chilean competition is strong for many products, supplying a little less than half of Argentine F&B imports
A large number of Argentines travel to the US, and are exposed to American culture and products	Lack of brand awareness of many imported products by importers, retailers and consumers
Most imported food is speciality and/or novelty in large retailers and convenience stores	Lack of importers' and retailers' knowledge in purchasing and merchandising US products
Quality and variety of U.S. F&B products	Limited market awareness by US exporters of opportunities in Argentina
Increasing demand for convenience foods (including frozen and microwaveable foods)	Relatively small initial purchases by importers, which discourages US suppliers and increases unit costs
Hypermarket and superstore expansion in the interior of the country opens new opportunities to US F&B products	High cost for launching new brands/products and high slotting fees, which exporters and importers must share
Large foreign retail chains have more opportunities to deal with foreign suppliers	Large local supply of most food and beverage products.
Large retailers are importing more products directly	Large foreign investment in the sector improves efficiency, quality and competition
Strong local currency makes imported products more accessible to consumers	Higher distribution costs to reach interior of the country and smaller cities

Registration of food products for import and import procedures are usually relatively simple	Generally US F&B are higher priced than local and EU products due to the strong dollar and higher transport costs
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SECTION II. ROAD MAP FOR MARKET ENTRY

A. HYPERMARKETS OR SUPERCENTERS, SUPERSTORES AND WAREHOUSE OUTLETS

Entry Strategy

The best method to import a product will depend upon the product, the importer, and retailers. However, virtually all successful trade depends upon the commitment of the exporter to devote the time and resources necessary for building a market for their product (s). In general, imported F&B come into Argentina through any of the following ways:

- Direct imports by supermarkets. Import or purchasing managers of large retail companies identify good products in international food shows, buying missions, etc. They establish a direct contact with the foreign supplier and import the products directly. Due to small initial volumes, it is common for them to use large U.S. wholesalers or consolidators.

- Local agents, who work closely with large retail chains usually present new products to purchasing managers in supermarkets. Imports are done on behalf of supermarkets and they charge a commission, but they stay on top of the product to supervise its marketing and brand development.

- Local food and beverage importers who import products and then market them in supermarkets and/or HRI establishments. There are a few of these who have been in the market for several years and have well-established brands. They mainly specialize in gourmet foods.

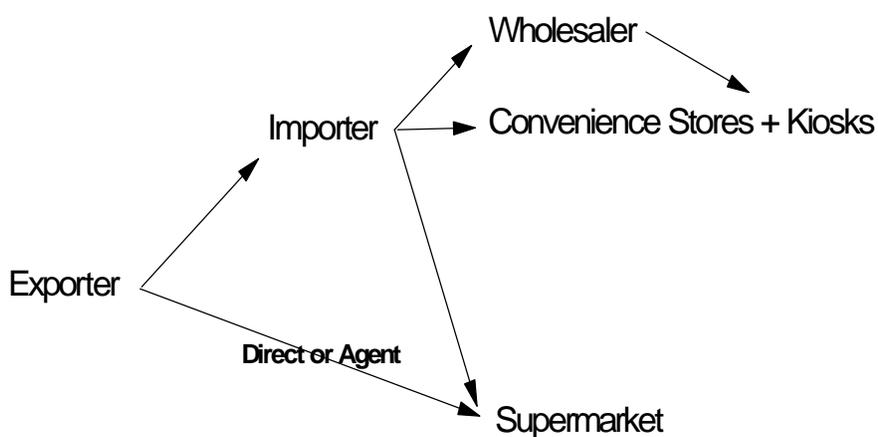
- Local processors (mainly subsidiaries of multinational companies) such as Nestle, Pillsbury, Parmalat, Procter and Gamble, Pepsico, Ferrero, etc. which import and distribute products usually manufactured by their sister companies.

* Frozen food products have to be marketed through an importer or local processor which has a refrigerated distribution chain. Superstores generally do not import directly these types of products.

* Food products in general can be imported directly (not through agents) by hypermarkets. However, making efficient contact with their buyers is very difficult. Based on past experiences, many products imported directly have not had continuity in the market.

Market Structure

Distribution Channel Flow Diagram Imported Foods & Beverages

CompanyProfiles (1999)

Retailer	Ownership	F&B Sales \$ Million *	No. of Outlets	Locations	Purchasing Agent Type
Carrefour/ Norte/Tia/Dia	French	2,600	162	National	Direct, agent, importer
Disco/Ahold	Local/Dutch	1,450	219	National	Direct, agent, importer
Coto	Local	880	73	Buenos Aires/ Large Cities	Direct, agent, importer
Jumbo	Chilean	580	8	Buenos Aires	Direct, agent, importer
La Anonima	Local	340	69	Primarily South of Argentina	Direct, importer
Wal Mart	US	330	10	Buenos Aires/ Large Cities	Direct, agent, importer
Libertad/ Casino	Local/French	300	8	Center-North of Argentina	Direct, agent, importer
San Cayetano	Local	220	54	Buenos Aires	Agent, importer

Metro	Local	130	20	Center-West of Argentina	Agent, importer
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Source: ACNielsen

* FAS estimate

- < Argentina has mainly the following retail store formats:
 - < hypermarkets (+5,000 sqm., +25 checkouts, driving distance)
 - < supermarkets (400/5,000 sqm., 4/25 checkouts, walking distance)
 - < superettes (-400 sqm., less than 3 checkouts, two blocks away)
- < Buenos Aires city and suburbs are covered by all three above formats.
- < Large cities (mainly provincial capitals) have primarily supermarkets and superettes. However, large retailers are starting to install hypermarkets.
- < Smaller cities (less than 100,000 people) have primarily superettes and some supermarkets.
- < Warehouse clubs (locally known as hard discounts) are growing in popularity. In 1999, this new format totaled more than 200 stores in Buenos Aires city. The two main chains, Eki and Dia, are expected to continue its aggressive expansion.

- < Although Argentina produces a great variety of foods and beverages, local hypermarket and superstore chains offer a wide selection of imported products, especially in stores located in the most affluent areas of Buenos Aires city and suburbs (where one third of the country's population lives, and almost half of the sales are done).
- < Supermarkets incorporate new imported products to attract consumers. Globalization encourages people to try foods and beverages from around the world.
- < Almost 95 percent of the upper class, 80 percent of the middle class and about 60 percent of the lower class shop in hypermarkets and superstores.

B. CONVENIENCE STORES, GAS MARTS, KIOSKS

Entry Strategy

- < The best method for new-to-market exporters is to enter the market through importers who have their own distribution networks, and to a lesser degree, through wholesalers.
- < It should be noted that participation in trade shows, especially SIAL Mercosur (next two editions will be in mid-2001 and mid-2003), and other professional trade shows foster contact between U.S. suppliers and importers primarily from the Mercosur region.
- < In general, a local representative is helpful to develop negotiations with importers. Most food importers sell directly to this subsector.

Market Structure

Please refer to flow chart in Section A.

Company Profiles

Retailer Name	Ownership	Sales (\$ Mil)	No. of Outlets	Locations	Purchasing Agent Type
EG3 (Repsol)	Spanish	N/A	N/A	Nationwide	Direct, importer, agent
Esso Shop and Minishop (Esso)	U.S.	1,200-1,800	300	Nationwide	Direct, importer, agent
AM-PM (Repsol)	Spanish	360-600	100	Nationwide	Direct, importer, agent
Select (Shell)	British/Dutch	N/A	200	Nationwide	Direct, importer, agent

Source: CLAVES Información Competitiva

- < **Gas mart chains or convenience stores** are a relatively new format in Argentina. They started operation in the early nineties as a separate division of oil companies. A high percentage of these outlets operate under franchising. Approximately 75 percent of gas stations includes a convenience stores.
- < There are approximately 5,000 convenience stores all over the country. In 1999, they accounted for 3.3 percent of the total retail sale of food and beverages.
- < They are typically located within gas stations, open 24 hours a day, and offer a wide variety of food products (between 2,000 and 3,000), such as frozen food, fast food, snacks, confectionery items, alcoholic and non-alcoholic beverages, dairy products, etc. They also include a gift area and an eating area with a couple of microwaves. Their customers usually make purchases by impulse (e.g. confectionery items), or because of their proximity and the fact that they are open 24 hours a day.
- < Being open 24 hours a day and their relative security are some of the major attractive features of gas marts.
- < **Kiosks** are smaller than gas marts and they primarily sell confectionery products, snacks, cigarettes, soft drinks, ice cream, etc. They do not have eating areas, and most of them are family-run. Some kiosks have become drugstores, with self-service shelves and a wider product variety.
- < There are over 85,000 kiosks in Argentina.
- < In 1999, kiosks accounted for 7 percent of the total retail sale of food and beverage products.
- < Most imported items sold in convenience stores and kiosks are chocolates, alcoholic beverages, ice cream, ham, cheese, and specialties.
- < The location of convenience stores and kiosks in Argentina is mostly related to consumption patterns. Buenos Aires City and suburbs show a higher concentration of outlets (35 percent), followed by major cities such as Córdoba, Rosario, Mendoza,

- Tucumán, Mar del Plata, Bahía Blanca, Santa Fe, Paraná, Neuquén, and Salta.
- < Good growth is expected in this subsector in the near future as old gas stations are being modernized.
 - < Convenience stores customers primarily belong to middle-age/young upper-middle and middle socio-economic classes. Kiosks' customers belong to all socio-economic classes.

C. TRADITIONAL MARKETS - "MOM & POP" SMALL INDEPENDENT GROCERY STORES (including small supermarkets)

Entry Strategy

- < The best method to enter the market is the same as for convenience stores (please refer to Section B).

Market Structure

Please refer to flow chart in Section A.

Subsector Profile

- < In 1999, traditional markets accounted for almost 45 percent of the total retail sale of food products. Around 15 years ago, traditional markets comprised 73 percent of the total sales of food and beverage products.
- < In the last decade, this subsector has shown a gradual decline in favor of supercenters and superstores which -- as mentioned above -- provide approximately 44 percent of the total retail sales of food and beverages in Argentina.
- < Traditional markets' customers primarily belong to the middle and middle-low socio economic classes, and they usually address local clients.
- < Almost 6 percent of the upper class, 23 percent of the middle class and about 42 percent of the lower class shop in traditional stores.
- < Their market share has gone up slightly due to the recession and high unemployment, with more people buying with credit which is generally granted by the owners of the small grocery/supermarket stores.
- < Only a small percentage of imported food and beverages is sold through traditional stores.

SECTION III. COMPETITION

- < Argentina is essentially a food-producing country.
- < Of all retail food and beverages sold in 1999, 6 percent were imported products.
- < Food products imported into Argentina usually fall into one of the following categories: 1) domestic supply is smaller than the demand, 2) they are premium items, 3) they are

- less expensive than domestically-produced products, or 4) they are novelties.
- < Some food products (e.g. pork, nuts, some cheeses, snack foods, canned foods, and confectionery items) can be purchased abroad at lower prices.
 - < Argentine companies also import a wide range of premium products because of their high quality and variety.
 - < Food products are imported mainly from Mercosur countries (primarily Brazil and Chile) due to two main reasons: proximity and reduced preferential import tariffs. They also come from Ecuador, European countries (especially Spain, France, Italy, and Germany) and the United States.

The following table lists the advantages and disadvantages of both local and imported F&B products

	ADVANTAGES	DISADVANTAGES
Locally Produced	<ul style="list-style-type: none"> * established products * established brands * established manufacturers * adapted to local preferences * fresher/longer shelf life * generally less expensive * wide distribution * strong marketing support 	<ul style="list-style-type: none"> * not always the best quality * slower in introducing new novelty products * expensive slotting fees
Imported	<ul style="list-style-type: none"> * quality * novelty * availability (in case of products with limited local production) * variety * good image 	<ul style="list-style-type: none"> * generally more expensive * shorter shelf life * different taste * different packaging * poor or no marketing support * distribution limitations (run out of stocks) * importation/product registration

Following is a brief description of the market per major retail product categories

- < With regard to **snack food**, products of U.S. origin have a very good reputation. However, the main market player has manufacturing plants in Argentina (Note: PepsiCo holds over 70 percent of the Argentine snack food market).
- < On **breakfast cereals**, domestic production is also very significant. U.S.-owned companies established in Argentina (Kellogg's) lead the market. However, some

- varieties are imported. Disco supermarket imports from the United States for their private label. Consumption is expected to continue growing.
- < Argentina produces and exports **red meats**. Thus, imports are not significant although some sweetbreads are imported from the United States. **Pork** imports are significant, coming primarily from Brazil. Exports of US boneless pork were approved in November 2000, but bone-in pork continues to face restrictions.
 - < Regarding **dairy products**, Argentina is self-sufficient. However, some imports of cheese take place. Uruguay accounts for most of hard cheese imports, followed by the Netherlands and New Zealand. On semi-soft cheese, Uruguay has also an import market share, again followed by the Netherlands and New Zealand. With regard to soft cheese, the United States leads the import market, followed by Uruguay and Denmark.
 - < There are large imports of frozen and preserved **fish and seafood** specialties, coming primarily from Brazil, Ecuador, Chile, Spain, and Thailand.
 - < Some **stone fruits** are imported from Chile (peaches and plums), but only to supplement domestic production. The United States supplies apples to Argentina, after Chile, although domestic production is very large. There are significant imports of **canned fruits**, including peaches, pineapples, and fruit cocktails. Chile is the main supplier, followed by Thailand and Greece.
 - < During the past few years, the United States accounted for 30 percent of Argentine imports of **tree nuts** (primarily almonds and walnuts)
 - < Regarding **soft drinks**, imports have a 1 percent-share of the total market, of which the majority comes from Spain and Brazil. French brands of **mineral water** account for most imports. Brazil supplies the largest **beer** imports, followed by the United States, Mexico and the Netherlands. **Wine** imports are led by Spain and Germany. France accounts for the largest share of **sparkling wine** imports, followed by Germany. There is a growing demand for Californian wine.
 - < Argentina is self-sufficient in **pet food** production, especially after the opening of several manufacturing plants owned by foreign companies, who have established in the country in the last few years. However, some *premium* pet food is imported, primarily from the United States, followed by Brazil which is also a large supplier.

SECTION IV. BEST PRODUCT PROSPECTS

The best product prospects for U.S. food and beverage products in the Argentine retail market are as follows:

Product Type	Products Present in the Market w/Good Sales Potential	Products not Present in Significant Quantities but w/Good Sales Potential	Products not Present because They Face Significant Barriers (or for Other Reasons)	Barriers/Reasons
Pork/Ham	X			Fresh bone-in pork from the US continues to be banned
Preserved Fish	X			
Chocolate	X			
Whisky/Bourbon	X			
Canned Vegetables	X			
Special Cheeses	X			
Fruit & Vegetable Juices	X			
Frozen/Fresh Fish	X			
Frozen/Fresh Molluscs		X		
Beer	X			
Fresh Kiwi	X			***
Fresh Citrus	X			***
Sauces & Preparations	X			
Fresh Tomatoes	X			***
Cocoa Powder	X			
Fresh Stone Fruit	X			***
Powder for Cakes/ice cream/gelatin	X			

Preserved Mushrooms		X		
Fresh Deciduous Fruit	X			***
Fresh Grapes	X			***
Fresh Tropical Fruit		X		***
Frozen Vegetables		X		
Pulses	X			
Sparkling Wine	X			

*** Please contact our office for current phytosanitary regulations

SECTION V. POST CONTACT AND FURTHER INFORMATION

Office of Agricultural Affairs
U.S. Embassy, Buenos Aires
Av. Colombia 4300
1425 Buenos Aires, Argentina

Phone 54-11-4777-8054
Fax 54-11-4777-3623
E-mail: agbuenosaires@fas.usda.gov
Homepage: <http://www.fas.usda.gov>